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Before the
FEDERAL COMMUNICATIONS COMMISSION
Washington, D.C. 20554

In the Matter of	)	
	)	
Telephone Number Portability	)	CC Docket No. 95-116
	)	RM 8535

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Comments of Ameritech to
Further Notice of Proposed Rulemaking

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I. Summary

Ameritech files its Comments in this matter responding to the Commission's questions and tentative conclusions, and proposing a competitively neutral cost recovery mechanism for the allocation and recovery of the costs of implementing and providing long term number portability.

The costs of developing, deploying and providing regional and state number portability service management system ("SMS") master databases, as well as the costs of administering those master databases, should be allocated to all telecommunications carriers in the area served by the database, based upon each carrier's gross retail revenues. In order to be truly neutral, any allocation mechanism should include all telecommunications carriers regardless of the technology they use, whether or not they are interconnected to the database, and whether or not they use ported numbers. Incumbent and new LECs, interexchange carriers ("IXCs"), and commercial mobile radio service ("CMRS") providers should all be included.

Allocation of shared industry master database and administrative costs to all telecommunications carriers based upon gross retail revenues best meets the Commission's principles for competitively neutral cost recovery. Use of gross retail revenues also ensures that each industry segment bears its pro rata share of these costs, while avoiding distortions among competing carriers in any segment.

Ameritech recommends that each telecommunication carrier recover from its end users both its allocation of shared industry number portability costs and its direct long term number portability costs. This method is simple and efficient to administer, and creates appropriate incentives for efficiency. Under Ameritech's proposal, both allocated industry and carrier direct costs of a LEC would be separately assigned between its local exchange and toll service based upon the percentage of each type of traffic handled by the LEC. Amounts assigned to toll would be recovered by each LEC in its competitive toll rates, as it saw fit.

Number portability costs assigned to a LEC's local services should be recovered from each LEC's end users though a mandatory, equal surcharge per access line assessed for three years. Each state should prescribe its own cost-based industry surcharge. This approach will ensure competitively neutral recovery among all providers of local service, while at the same time creating significant incentives for efficiency by each carrier.

II. Cost Categories and Cost Allocation

A. Ameritech generally supports the three cost categories proposed by the Commission

Ameritech concurs with the Commission's tentative conclusion that long term number portability costs should be divided into the following three categories:

Type 1 Industry Shared Costs (e.g.: administration)

Type 2 Carrier-Specific Direct Costs

Type 3 Carrier-Specific Costs Not Directly Related[1]

Ameritech generally agrees with the Commission's tentative definition of each of the three categories. However, it believes that some upgrades of the Signaling System 7 ("SS7") facilities, and perhaps Advanced Integrated Network ("AIN") facilities, could qualify as Type 2 costs if they are made for the sole purpose of providing long term number portability.[2] Examples include new links, added signal transfer point ("STP") capacity, long term number portability-specific AIN software,[3] etc. and other facilities and software added to create long term number portability capabilities, and to carry the resulting traffic.

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[1] Para. 208.

[2] See, ¶ 209 where the Commission uses SS7 and AIN upgrades as an example of a Type 3 cost.

[3] For example, special AIN software is required for Ameritech 1AESS switches solely so they can provide long term number portability.

B. Ameritech supports the Commission's principles for competitively neutral allocation of costs

The Commission tentatively concludes that any competitively neutral cost recovery mechanism adopted for long term number portability must not:

1. give one service provider an appreciable, incremental cost advantage over another service provider when competing for a specific customer, or
2. have a disparate effect on the ability of competing service providers to earn a normal return.[4]

Ameritech agrees that the Commission should measure any proposal against the above principles.

C. Ameritech proposes allocation of shared industry costs to all telecommunications carriers based upon their gross retail revenues

The Commission divides Type 1 (industry shared and administrative costs) costs into three subcategories -- (1) non-recurring, (2) recurring, and (3) the costs of uploads and downloads to the SMS database. The Commission then asks if recurring and non-recurring Type 1 costs should be allocated to all carriers, or just to carriers that use the master database.[5] In order to be competitively neutral and to meet the Commission's principles, Type 1 non-recurring and recurring costs should be allocated to <u>all</u> telecommunications carriers doing business in the area served by the database, regardless of whether or not they interconnect with the database, and without regard to their use of ported numbers. Such a broad-based allocation method is

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[4] Para. 210.

[5] Para. 212.

necessary to ensure that no carrier is placed at a competitive disadvantage, and to ensure participation by all benefiting carriers.

The Commission asks if recurring and non-recurring Type 1 costs should be allocated on a nationwide, regional or other basis. Ameritech proposes that Type 1 recurring and non-recurring costs be allocated to all telecommunications carriers operating in the geographic area served by the database. This approach will ensure that carriers pay costs associated with databases in areas they serve, and thereby create an incentive for efficiency and effective cost controls. Since these costs will eventually be recovered from end users, this approach has the added advantage of recovering from local customers costs for databases that benefit them.

The Commission tentatively concludes that Type 1 non-recurring and recurring costs should be allocated based upon each carrier's proportion of total gross revenues, minus charges paid to other carriers.[6] Ameritech does not believe that this allocation method is optimally competitively neutral, nor that it follows the Commission's principles, because it places an undue burden on carriers that provide services through their own facilities. The mechanism could thereby place a facility-based carrier at a potentially significant competitive disadvantage versus carriers competing through the use of services or facilities of other carriers. This methodology would thereby create disincentives to carrier investment in facilities, thus delaying the development of facilities-based competition.

[6] Para. 213.

This distortion arising results from the fact that a facility-based retail carrier would receive a larger allocation per dollar of retail sales than would its non-facility based competitors. For example, assume that total retail sales in an area are $1,000.00, and that total wholesale sales are $500.00. Further assume that one carrier has retail sales in that area of $100.00, and wholesale sales of $50.00, and uses its own facilities to provide its retail services also assume that another carrier has retail sales of $150.00 but uses wholesale services of other carriers which cost $75.00 to provide its service. In that case, the first carrier's allocation of Type 1 costs would be 10% (150/1500), while the second carrier's allocation would be 5% (75/1500). Thus, even though both carriers are exactly the same size, the facility-based carrier's allocation would be double that of the non-facility-based carrier. For this reason, each carrier's allocation should be based upon all of its relevant revenue, without any reduction or discount.

The Commission expresses concern about double counting that could occur if the allocation were based upon total gross telecommunications revenues of each carrier without a reduction for wholesale payments to other carriers.[7] This double counting problem can be eliminated if the Commission bases the allocation solely upon gross telecommunications retail sales. This approach would have the added benefit of ensuring that all competing retail carriers are placed in the same relative position based solely upon its position in the retail marketplace. At the same time, this approach would eliminate

[7] Para. 213.

the inefficiency that would result from the double counting that would result if wholesale carriers recovered Type 1 costs from their carrier customers, which they in turn would also pass on their end users.

III. Cost Recovery

A. Recovery Principles

Ameritech proposes recovery of each carrier's long term number portability costs under the following principles. These principles implement competitive neutrality consistent the Commission's principles proposed in this proceeding and its general principles for cost recovery.

1. Long term number portability is not a routine network upgrade, but is a mandated legal requirement. As such, no carrier should be required to absorb its costs of implementation.

2. Since long term number portability will have a disparate impact on incumbent LECs and perhaps other carriers, absorption of costs by incumbent LECs is not competitively neutral and could be confiscatory in effect.

3. The chosen mechanism should neither discourage nor incent end users to change carriers. This principle is not met where only customers of incumbent LECs are assessed a surcharge, or where that surcharge is larger than one imposed by competing carriers.

4. Type 1 costs (industry shared) should be recovered on the same basis as Type 2 costs, once they are allocated to a carrier.

5. A mechanism involving pooling is administratively expensive and may incent and reward inefficiency. Pooling can be avoided because other more efficient vehicles are available that maintain competitive neutrality.

6. LECs that perform number portability functions for other carriers should recover those costs directly from the cost-causer.

B. Carriers should recover their allocated Type 1 costs plus their Type 2 costs through a mandatory, equal surcharge per access line

The Commission asks if telecommunications carriers should recover their Type 2 costs from their end users.[8] Specifically, toll and CMRS carriers should recover these costs from their users, as they see fit. Carriers providing both local and toll services would separate these costs between their toll and local operations based upon the percent of local versus toll traffic they carry.

Recovery of Type 1 and Type 2 local costs by LECs (new and incumbent) should be from their local exchange customers through a mandatory, state or regional monthly surcharge per access line assessed for a period of three years. The amount of the uniform surcharge could be based upon the Type 1 and Type 2 costs of LECs operating in the area. For example, the surcharge could reflect the relevant average or median Type 1 and Type 2 costs of all the LECs in the area. There should be an option for a midpoint review of the surcharge if costs substantially change.

The use of a mandatory per-line surcharge ensures that no LEC gains any competitive advantage over another competing LEC as a result of charges for number portability cost recovery. This approach further creates significant incentives for efficiency, since each carrier's cost recovery is the same regardless of the level of costs it incurs. It thereby rewards efficiency and penalizes waste.

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[8] Para. 241.

C. Costs of queries to another carrier's downstream database should be recovered from the cost causer

Within the industry, there is general agreement that the responsibility for performing the database query to secure routing information on calls to ported numbers rests with the "second-to-last" carrier on a particular call. This so-called "N-1" routing scenario was discussed at length within the Industry Numbering Committee (INC) Number Portability Workshop, and is referenced in Section 7.2.3 of its final report. This call processing methodology was also advocated by proponents of the three leading long-term proposals for number portability (AT&T's LRN, MCI's CPC and Stratus' LANP proposal), as evidenced by their service descriptions within the INC Report (LRN Section 13.1.3.3, LANP Section 13.2.1.1, and CPC Section 13.3.2). Furthermore, as to the FCC's question regarding responsibility for querying the database most parties agreed that "N-1" was the best approach.[9] However, the first Report and Order[10] in this Docket did not clarify that this consensus view applies.

If the second-to-last carriers do not perform the query, a significant number of calls to ported numbers that originate outside the area of portability must be routed via the incumbent LEC's network, thereby introducing the same routing inefficiencies that are claimed to exist with the interim solutions, and obligating the incumbent LEC to perform an excessive number of queries for other carriers' traffic and then to re-route the calls. In

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[9] AT&T Comments pp. 22-23, MFS Comments p. 11.

[10] Docket 95-116 NPRM, par 43-47.

order to compensate each LEC when it performs these query services on behalf of another carrier (LEC, IXC or CMRS), Ameritech proposes that in situations where a call to a ported number originates outside the incumbent LEC's network, if the incumbent LEC must perform the query, it should be authorized to assess a query charge to the "N-1" carrier for any calls that are "default routed" to the incumbent LEC.

Ameritech believes that this charging methodology is reasonable and appropriate, and that precedent was set for it within the 800 database order, when the FCC stated:

> "We conclude that if a LEC incurs the cost of a completed 800 database query on behalf of an IXC customer, that as a matter of economic efficiency, the associated IXC should be responsible for covering those costs."[11]

The Commission should expeditiously approve waiver requests (e.g., Part 69) necessary to establish these new query elements.

D. Costs of downloads and uploads of master databases should be recovered on a usage sensitive basis

Ameritech agrees that the Type 1 costs of uploading and downloading regional and state databases should be recovered through usage based charges.[12] Carrier interactions with a master database are more properly categorized as Type 2 costs, since they will be routed to and from a specific carrier's local routing database. With current databases these costs have no relationship to the number of ported numbers used by an individual carrier.

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[11] Second Report and Order, Docket 86-10, par. 13.

[12] Id. 218-219.

Thus, recovering these costs from the carriers recovering the benefit of these uploads and downloads is competitively neutral, and will not place any carrier at a competitive disadvantage based upon its use of number portability services. Recovering these costs from the cost-causer will also create appropriate incentives for efficiency and cost-effective practices. At this time, it appears that these charges should be established on a per occurrence basis.

IV. Conclusion

For the above reasons, Ameritech requests that the Commission adopt its tentative conclusions, subject to the proposed revisions and additions.

Respectfully submitted,

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